SOVIET BLOC AID AND NORMAL COMMERCE

1. Mr. Khruschev has publicly stated that the Soviet Union values trade more for its political than for its economic benefits. This, however, does not imply that the communist countries are engaged in vast giveaway programs devoid of economic benefit to themselves. It simply suggests that where the political gains are great enough, the terms and availability of financing will be easier than where purely commercial considerations predominate.

2. While no precise line of demarcation between economic aid and trade in the usual sense can be drawn, certain features of the Soviet Bloc foreign aid program distinguish it from normal commerce.

(a) Intermediate-term and long-term credits with soft repayment terms. Both the repayment periods and interest rates on these credits are beyond the scope of commercial financing. The total of such Bloc credits (economic and military) to underdeveloped countries now stands at well over $2 billion.

(b) Grants-in aid. This has been the chief feature of the Chinese Communist aid program to date. More than $45 million in goods has been given to Cambodia, Nepal, and Ceylon. Nearly $10 million worth of foreign exchange has been given to Egypt and Nepal.

(c) Commodity loans. In order to enable Afghanistan to overcome a deficiency in local funds, the Soviet Union has sent $15 million worth of commodities (chargeable to the $100 million line of credit with the Soviet Union) for sale on the local markets. With the proceeds, the Afghan Government will be able to meet local costs for certain projects under the $100 million Soviet credit.

(d) Purchasing burdensome surpluses which overhang certain primary commodity markets. Most notable among these highly publicized purchases have been Egyptian cotton, Brazilian coffee, and Cuban sugar. These purchases, always accompanied by spectacular press and radio releases, are as much a part of the Soviet Union's program to help the producing country as to acquire essential consumer materials for its people. Normal commercial practices do not include such elaborate propaganda campaigns.

COSTS OF SOVIET BLOC AID

1. An overall appraisal of the costs of Soviet Bloc aid would require an item-by-item analysis of the internal and external prices for goods and services furnished by the Bloc to underdeveloped countries. Price information in sufficient detail for an across-the-board evaluation of costs is not available. Nevertheless, certain outstanding examples are at hand to gain a reasonably accurate general impression of Bloc pricing practices.

2. Severe price competition seems to be rather limited in scope. The most notable instances have been in connection with military equipment and supplies.

(a) Estimated cost of military equipment to Syria and Egypt is about two-thirds the value of the equipment received.

(b) Czechoslovakia gave Syria a 15 percent discount on a $1.5 million arms purchase for Jordan.

(c) Yemen has received some of the largest discounts. In 1957 Yemen was charged $10 million for arms worth about $32 million.

3. Outside of the military equipment field, substantial discounts are usually confined to instances in which the Bloc seeks to gain a substantial foothold in a new market. Reports of this nature are scattered and no reliable opinion as to the extent

of this practice can be found.

(a) Turkish businessmen have reported USSR offers to sell certain kinds of machinery at prices 5 to 10 percent those offered by Western firms for comparable equipment.

(b) [redacted] 25X1X

25X1X [redacted] reported the USSR selling comparable merchandise for half the price he could quote.

(c) An Iraqi official claimed his government refused to purchase locomotives from West Germany after Hungary offered locomotives at one-third the German price.

4. There have been few examples of price competition on economic development projects. The one classic exception is the Homs petroleum refinery in Syria. After about a year and a half of cut-throat bidding involving Procon (a subsidiary of Universal Oil Products Company of Chicago) and Technoexport of Prague, the Czechs won the contract for $15.1 million.